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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

RE: Ex Parte Notice
CC Docket No. 97-211 (Applications of WorldCom and MCI for Transfer of Control of MCI to WorldCom)

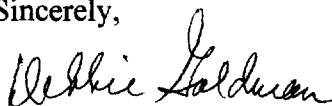
Dear Ms. Salas:

On June 15, 1998, George Kohl, CWA Senior Executive Director, and Debbie Goldman, Research Economist, met with Mike Nelson of the Office of Plans and Policy. Our discussion focused on MCI's partial divestiture of Internet assets, which does not resolve the anti-competitive issues raised by this merger

The attached briefing paper on the MCI spin-off was used in our discussion.

In accordance to the Commission's rules, I submit two copies of this notice and the hand-out.

Sincerely,



Debbie Goldman
Research Economist

cc: Mike Nelson

Enclosure

No. of Copies rec'd 021
List A B C D E



The MCI Proposal to Sell Its Internet Operations to Cable And Wireless is Only a Partial Divestiture

On May 28, 1998, in response to U.S. and European regulators' concerns about the anti-competitive impact of the proposed MCI/WorldCom merger on the Internet market, MCI announced plans to sell a portion of its MCIinternet assets to Cable and Wireless for \$625 million. Does this sale represent a complete divestiture of MCIinternet, the world's largest Internet network provider?

We can answer this question by comparing the MCIinternet sale to Cable and Wireless with the 1996 MFS (now a part of WorldCom) purchase of UUNet, the world's second largest Internet network provider. Two years ago, MFS purchased UUNET for \$2.2 billion. Why would MCI sell off its Internet business today for only one-fourth the purchase price paid two years ago by MFS for a smaller Internet company? The answer is that MCI is not divesting its key Internet resources.

This fact can be demonstrated in two ways; first, by comparing the price to revenue valuation multiple for the two deals; and second, by comparing the assets that are included in the two deals.

Price/Revenue Multiple of MCIinternet Deal is One-Fourth the Value of the UUNet Deal

A price to revenue valuation method is a standard analytic tool that investment bankers use to calculate the value of an asset. The price to revenue multiple for the 1996 MFS purchase of UUNet is 11.2. The MCI sale of Cable and Wireless yields a price to revenue multiple of only 2.8, which is only one-fourth the value of the UUNet deal.

Valuation of UUNet and MCIinternet Deals		
	1996 UUNet Deal	1998 MCIinternet Deal
Purchase Price	\$2.24 billion*	\$625 million
Internet Revenue	\$200.1 million	\$220 million
Price/Revenue Multiple	11.2	2.8
Source: UUNet Second Quarter, 1996 Financial Report; MFS SEC Form 10-K, 3/31/97; MCI SEC Form 8-K, 5/29/98. (The Internet revenue figures were annualized.)		
*UUNet price = \$2.1 billion purchase price plus \$.14 billion assumed liabilities		

If the MCI divestiture were indeed a spin-off of its entire Internet operations, one would expect a multiple in the same range as the UUNet sale. Thus, applying the UUNet 11.2 multiple to the MCI assets would yield a \$2.5 billion sale price for MCIinternet. It should be noted that this valuation factor does not include any adjustments for changes since 1996 -- a lifetime in Internet economics. Adjustments might be appropriate because 1) the scale of the MCIinternet customer base and infrastructure has greater value than the UUNet network; 2) Internet traffic has grown 600 percent over the past two years; and 3) the UUNet sale was two years ago, when Internet earnings projections were less secure.

MCIinternet Sale Does Not Include Many Key Internet Assets

The \$625 MCIinternet purchase price is so low because the divestiture is incomplete. MCI is not selling Cable and Wireless all of its Internet assets. This can be seen by comparing the description of Internet assets included in the MCIinternet and the UUNet deals, as reported to shareholders in company filings with the Securities and Exchange Commission (SEC).¹ These filings are required by law to disclose accurate information so that shareholders can accurately value companies.

The MCIinternet sale includes MCIinternet's physical assets and 1,300 ISP customers. However, the sale does not include residential and commercial customers, applications services, consulting services, Web server hosting, integration services, client software, network integration, training services, comprehensive range of Internet access options, intranet services, all sales and marketing employees, all customer service employees, all technical and engineering employees, all administrative employees, operations support systems, network operations centers, collocation facilities, and research and development. The table on the next page summarizes this list.

Conclusion

Only a complete divestiture of MCIinternet will resolve the Internet anti-competitive issues related to this merger, thereby effecting a permanent, stable transfer of customers. Only a complete divestiture will preserve today's market structure in which no one backbone network provider can set the terms and price of interconnection on the Internet through its dominant control of the customer base.

As we have demonstrated, the \$625 million MCIinternet sale to Cable and Wireless is not a complete divestiture of MCI's Internet assets. First, its price/revenue multiple of 2.8 is far too low to represent a complete divestiture, as can be seen by comparing it to the 11.2 multiple paid two years earlier for UUNet. Second, of the 22 Internet assets included in the UUNet sale, only two (physical assets and ISP customers) were included in the MCIinternet sale. Thus, the \$625 million MCIinternet deal fails the market test to remedy anti-competitive concerns.

¹ MCI Communications Corporation, SEC Form 8-K, May 29, 1998 and MFS Communications Company, SEC Form 10-K, March 31, 1997

Internet Assets Sold in UUNet and MCIinternet Deals		
Items Purchased	UUNET	MCIinternet
Physical assets	Yes	Yes
Comprehensive range of Internet access options	Yes	No
Internet applications services	Yes	No
Internet consulting services	Yes	No
Web server hosting	Yes	No
Integration services	Yes	No
Client software	Yes	No
Security products	Yes	No
Network integration	Yes	No
Training services	Yes	No
Residential customers (dial-up)	Yes	No
Commercial customers (dial-up and dedicated)	Yes	No
ISP Customers	Yes	Yes
Intranet services	Yes	No
All sales & marketing employees	Yes	No
All customer service employees	Yes	No
All technical & engineering employees	Yes	No
All administrative employees	Yes	No
Operations support systems	Yes	No (right to use)
Network operations centers	Yes	No
Collocation facilities	Yes	No (right to use)
Research and Development	Yes	No
Source: MCI Communications Corporation, SEC Form 8-K, May 29, 1998 and MFS Communications Company, SEC Form 10-K, March 31, 1997.		

June 9, 1998